MICHIGAN LAW REVIEW

PUBLISHED MONTHLY DURING THE ACADEMIC YEAR, EXCLUSIVE OF OCTOBER, BY THE
LAW FACULTY OF THE UNIVERSITY OF MICHIGAN

SUBSCRIPTION PRICE $2.50 PER YEAR. **35 CENTS PER NUMBER**

NOTE AND COMMENT.

THE RIGHT OF THE PATENTEE TO CONTROL THE RESALE PRICE.—Of the recent decisions of the Supreme Court of the United States, *Bauer and Cie.* v. *O'Donnell,* 229 U. S. 1, 33 Sup. Ct. 616, 57 L. ed. 1041, the so-called *Price Maintenance Case,* was of vital importance to a large number of manufacturers of patented articles. That this decision had a great effect upon such manufacturers is evidenced by the various ingenious methods and devices which have since been adopted by numerous manufacturers to avoid the operation and application of the principles set forth in the decision of that case.

The firm of Bauer and Cie. of Germany, were patentees of a certain water soluble albumenoid known as "Sanatogen" and of the process of manufacturing the same. F. W. Hehmeyer, doing business in New York under the firm name of Bauer Chemical Co., became the sole agent and licensee for the sale of the product in the United States. It was agreed between these parties that Bauer and Cie. were to furnish the product to the Bauer Chemical Co. at cost, the Bauer Chemical Co. was to fix the price of sale to wholesalers or distributors, to retailers and to the public, and the net

profits were to be shared equally. The patented article was supplied to the trade and the public in sealed packages bearing the name "Sanatogen," the words "Patented in U. S. A., No. 601,995," a notice that the article was licensed for sale and use at a specified price of one dollar, that violation of this condition would constitute an infringement of the patent, that a purchase was an acceptance of this condition and upon violation all rights would revert to the licensee. Appellee, the proprietor of a drug store, bought of the licensee for his retail trade original packages with the aforesaid notice. The appellee sold the article for less than one dollar and as he persisted in such sales after repeated remonstrance, the appellant refused to continue to sell the product to the appellee. The appellee bought the article from jobbers and continued to sell the same at less than one dollar. It is claimed by the appellant that this action on the part of the appellee was an infringement upon appellant's patent rights.

It was decided that, although U. S. REV. STAT., § 4884, U. S. COMP. STAT., 1901, p. 3381, gave the exclusive right to the patentee, his heirs and assigns to make, use, and vend the invention or discovery, yet as to a purchaser from jobbers who had paid to the patentee's agent the full price asked, the price at which such patented article may be resold could not be limited by notice. And further it was decided that an otherwise unqualified sale could not be converted into a mere license by a notice attached to a patented article, stating that such article is licensed for sale and use at a certain price, and that the condition is accepted by purchase and upon violation all rights are to revert to the licensee.

This decision by the Supreme Court was unquestionably a very great surprise to many, as it is not only directly in conflict with an almost unbroken line of decisions of the inferior federal courts, and the decisions in England, but it is also nearly impossible to reconcile this decision with *Henry* v. *A. B. Dick Co.*, 224 U. S. 1, 32 Sup. Ct. 364, 56 L. Ed. 645, which case is attempted to be distinguished in the majority opinion in the principal case.

In the inferior federal courts, upon the very question under discussion, are many decisions worthy of notice, all of which are contrary to that of the principal case, *Heaton-Peninsular Button Fastener Co.* v. *Eureka Specialty Co.*, 77 Fed. 288, 47 U. S. App. 146, 25 C. C. A. 267, 35 L. R. A. 728; *Edison Phonograph Co.* v. *Kaufmann*, 105 Fed. 960; *Edison Phonograph Co.* v. *Pike*, 116 Fed. 863; *Victor Talking Machine Co.* v. *The Fair*, 123 Fed. 424, 61 C. C. A. 58; *National Phonograph Co.* v. *Schlegel*, 128 Fed. 733, 64 C. C. A. 594; *Rubber Tire Wheel Co.* v. *Milwaukee Rubber W. Co.*, 154 Fed. 358, 83 C. C. A. 336; *N. J. Paint Co.* v. *Schaeffer*, 159 Fed. 171; *The Fair* v. *Dover Mfg. Co.*, 166 Fed. 117, 92 C. C. A. 43; *Edison* v. *Ira M. Smith Mercantile Co.*, 188 Fed. 925; *Winchester Repeating Arms Co.* v. *Buengar*, 199 U. S. 786. The cases cited are all cases where there had been a sale to a jobber by the patentee with a limitation generally upon the resale price, a resale by the jobber, the purchaser having notice of the limitation, and a sale by the purchaser from the jobber at a price less than that which had been stipulated, and as against the purchaser from the jobber the courts held that a sale for less than the stipulated price was an infringement upon the rights of the patentee.

As to the validity of such limitation as against the immediate purchaser from the patentee there seems as yet to be no question.

Probably the best exposition of the reasoning upon which the decisions of the inferior federal courts are based is to be found in *Rubber Tire Wheel Co.* v. *Milwaukee Rubber W. Co.*, supra, in which BAKER, Circuit Judge, says:

"Under its constitutional right to legislate for the promotion of the useful arts, Congress passed the patent statutes. The public policy thereby declared is this: Inventive minds may fail to produce many useful things that they would produce if stimulated by the promise of substantial reward; what is produced is the property of the inventor; he and his heirs and assigns may hold it as a secret till the end of time; the public would be largely benefited by obtaining conveyances of these new properties; so the people through their representatives say to the inventor: Deed us your property, possession to be yielded at the end of 17 years, and in the meantime we will protect you absolutely in the right to exclude everyone from making, using or vending the thing patented, without your permission. Congress put no limitations, excepting time, upon the monopoly. Courts can create none without legislating. The monopoly is the invention, the mental concept as distinguished from the materials that are brought together to give it body. Use of materials, as noted above may be enjoined as injurious to the public, but that does not invade the monopoly. Use of the invention cannot be had except on the inventor's terms. Without paying or doing whatever he exacts, no one can be exempted from his right to exclude. Whatever the terms, courts will enforce them, provided only the licensee is not thereby required to violate some law outside of the patent law, like doing murder or arson."

The views of the English courts upon this question are best explained and set forth in the words of WILLS, J., in *Incandescent Gaslight Co.* v. *Cantelo*, 12 Rep. Pat. Cas. 262: "The sale of a patented article carries with it the right to use it in any way that the purchaser chooses to use it, unless he knows of the restrictions. Of course, if he knows of the restrictions, and they are brought to his mind at the time of the sale he is bound by them. He is bound by them on this principle: the patentee has the sole right of using and selling the articles, and he may prevent anybody from dealing with them at all. Inasmuch as he has the right to prevent people from using or dealing in them at all, he has the right to the lesser thing, that is to say, to impose his own conditions. It does not matter how unreasonable or how absurd the conditions are."

Before discussing the *Dick* case it probably would not be amiss to give some attention to the judicial history of that case in connection with the principal case. The *Dick* case was a four to three decision, Justice LURTON delivering the opinion of the court, and concurring with him were Justices M'KENNA, HOLMES and VAN DEVANTER. Those who dissented were Chief Justice WHITE and Justices HUGHES and LAMAR. Justice DAY was absent and took no part in the decision and at that time no successor to Justice HARLAN had as yet been appointed. The decision in the principal case was delivered by Justice DAY, and concurring with him were Chief Justice WHITE, Justices HUGHES, LAMAR and PITNEY, and dissenting were the very judges

who had concurred in the prevailing opinion in the *Dick* case. A detailed judicial history of the dissenting justices in the principal case upon price-maintenance and like questions, by Mr. Edward S. ROGERS, may be found in 10 MICH. LAW REV. 608.

It was generally thought that in the *Dick* case the Supreme Court had expressly committed itself to the doctrine that the patentee could require the user to comply with any conditions which he might choose to impose. But that case is attempted to be distinguished from the principal case upon the ground that in the former there was a qualified sale for less than value for limited use with other articles only. But this distinction does not seem very clear, sound or convincing, but appears to be an evasion of the real question. The test laid down as to whether or not a sale may be qualified is, has the vendor any further interest in the articles? Now why could not the limitation have been upheld in the principal case? For it is conceded by all that one of the best and most effective ways to establish a reputation and market for goods is to have a uniform price for these goods throughout the country. To say the least these two decisions are conflicting in spirit.

There does not seem to be any valid reason why the patentee should have broader rights with regard to imposing limitations upon the right to use than he should have with regard to imposing limitations upon the right to vend. The decision in the principal case is based upon *Bobbs-Merrill Co.* v. *Straus*, 210 U. S. 339, 52 L. Ed. 1086, 28 Sup. Ct. 722, which arose under the Copyright Act. By analogy it was determined that the words, "Exclusive right to vend" found in the patent statute should have the same interpretation as the words "sole liberty of vending" found in the Copyright Act. As by statute the patentee is given broader rights than the owner of a copyright, it is difficult to see how the same construction is to be put upon these words. It is true that the rights to use and vend are separate and distinct but it does not seem that Congress ever intended to place different limitations upon the extent of the monopoly a patentee should have, as to these rights.

Since this decision some manufacturers have changed their methods of attempting to control the price the ultimate consumer is to pay and are now operating under agency contracts with retailers, and still others under a system by which the article is leased. The tendency of the Supreme Court seems to be to take the view that the monopoly enjoyed by the patentee was not meant by Congress to be without limitation, and consequently to make it practically impossible for the patentee to control the retail price. G. E. K.

THE EFFECT UPON A BILL OF EXCHANGE, OF A REFERENCE TO ATTACHED BILLS OF LADING.—A recent case in the New York Court of Appeals presents an interesting discussion of the principles involved in the determination of this question, and shows the correct application of the same.

A firm of cotton dealers in Decatur, Ala., drew a draft for $39,000.00 upon the plaintiffs, cotton brokers in New York, attaching thereto bills of lading for 600 bales of cotton. The only reference in the draft to the bills of lading was the word "cotton" lithographed or printed upon the draft. This